

SP Meeting

ESG Leadership Strategies

May 5, 2022

Antitrust Guidelines

SP meetings and discussions are, in general, to be industry-promotion, industry-issue, industry-development or technically oriented. Subject to the above and the advice of SP legal counsel, discussions may generally cover industry product developments on a generic basis, advancing “technical know-how,” improving productivity and efficiency, historical market data on a general (i.e. non-specific company) basis, and regulatory or legal industry-wide issues, policies of federal and state law enforcement bodies, and federal or state laws or pending legislation important to industry.

In view of antitrust considerations (both civil and criminal) and to avoid any possible restraints of competition, the following legally sensitive subjects as to a given company or its competitors must be avoided during any discussion between competitors:

- (a) Future marketing plans of individual competitors should not be discussed between competitors;
- (b) Any complaints or business plans relating to specific customers, specific suppliers, specific geographic markets or specific products, should not be discussed between competitors; agreements between competitors to allocate markets (customers or products) are illegal under antitrust laws; agreements between competitors to refuse to deal with a supplier or a customer are illegal under antitrust laws;
- (c) Purchasing plans or bidding plans should not be discussed (except privately between two parties with a vertical commercial relationship such as supplier and customer);
- (d) Current and future price information and pricing plans, bidding plans, refund or rebate plans, discount plans, credit plans, specific product costs, profit margin information and terms of sale should not be discussed between competitors. All of the above are elements of competition; and
- (e) Any question regarding the legality of a discussion topic or business practice should be brought to the attention of SP legal counsel or a company’s individual legal counsel for legal advice.

Agenda

- Introduction & Antitrust Guidelines – SP
- ESG Leadership Survey Results & Implications for Future – Scott Nadler, Nadler Strategy
- Discussion: Members' ESG Priorities, Challenges and Opportunities for SP – All
- Next Steps / Action Items

Introduction

SP members that have indicated interest in participating in ESG discussions include:

- American Axle & Manufacturing
- Battery Solutions
- Bolder Industries
- Bosch
- Clean Earth
- Covanta Environmental Solutions
- Cox Enterprises
- DEKRA
- DENSO
- Ecobat
- Edison Energy
- ERA
- Ford Motor Company
- geff LP
- General Motors
- Global Battery Solutions
- GZA
- Heritage Environmental Services
- Honda Development & Manufacturing of America, LLC
- Lear
- Magna
- Monolith
- Nalco
- RRS
- Sphera
- Stellantis
- Tetra Tech
- Toyota Motor
- Toyota Tsusho
- UGN
- Univar Solutions

Collaborative Workstreams

Supporting industry dialogue and action on common definitions, tools, and resources for measuring and advancing carbon reduction efforts across the value chain on the path toward carbon neutrality.

CARBON NEUTRALITY



Facilitating deeper discussions and connections among SP members related to current and emerging environment, health and safety (EHS) issues impacting the automotive industry.

EHS FORUM



Supporting SP companies as they strive to positively impact the environment, the economy, and the people who live and work in host communities surrounding automotive manufacturing operations.

ENVIRONMENTAL JUSTICE



Supporting SP members in better understanding the rapidly changing ESG landscape and proactively preparing their organizations to address current and emerging ESG expectations.

ESG LEADERSHIP



Supporting OEM / supplier dialogue and education on emerging global product chemical compliance process management challenges and opportunities.

GLOBAL PRODUCT CHEMICAL COMPLIANCE PROCESS MANAGEMENT



Identifying, developing and advancing nature-based solutions as effective tools to improve climate resilience and pollution prevention, as well as provide human well-being and biodiversity benefits.

NATURE BASED SOLUTIONS



Working to move the automotive industry towards a circular materials economy by promoting collaboration amongst automotive manufacturers and suppliers to incorporate sustainable practices, processes, and materials in the production and content of vehicles and automotive packaging.

SUSTAINABLE MATERIALS & PACKAGING



Promoting information exchange on key challenges and opportunities related to end-of-life management of advanced EV batteries and identifying opportunities for strategic pre-competitive collaboration across the value chain to advance best practice in responsible management of such batteries in North America and beyond

RESPONSIBLE BATTERIES



Providing a structured process to assist companies of all sizes within the SP network to share innovative ideas and solutions that can address our member companies' significant environmental sustainability challenges and needs.

TECHNOLOGY & INNOVATION



Developing a sector-wide water stewardship program that is centered on a decision matrix and action plan that helps member organizations achieve excellence in their water stewardship performance

WATER STEWARDSHIP





Preparing for What Comes Next

EHS/ESG Survey Report-out
March 2022

Nadler Strategy LLC

Today's Agenda

Objective:

Share the results and explore the implications for 2022 and beyond

Topics
Overview
EHS/ESG Programs
Sustainability Leadership
Your Role
Discussion

Overview

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Overview and Context

- This survey was conducted in March 2022.
- There were 32 responses (all US-based).
- There is NO statistical validity to the results: this is a small sample, not randomized in any way.
- Therefore participants should NOT interpret the data as providing answers, but rather as suggesting the questions we need to focus on.

These results were shared with GEMI's Emerging Sustainability Leadership Work Group last month. Some of their reactions will be shared today as well.



The Story Line

- The survey does not provide answers but it DOES tell a story.
- It's the story of a group of professionals who have weathered things they never expected – and they expect that to continue!

Executive Summary

EHS/ESG programs have higher and more strategic interest

- Over three-quarters of respondents said the EHS/Sustainability agenda has higher interest and more C-suite attention. This is markedly higher than in the 2020 survey.

Sustainability is reporting in at high levels - to C-Suite and Board.

- Over 80% show the senior Sustainability Leader reporting in to the C-Suite. Most Sustainability Leaders report to BOD or BOD committee personally at least annually, over 40% reporting at least quarterly.

Sustainability and EHS collaboration is very mixed.

- While over 50% report Sustainability and EHS as organized, reporting or working together, nearly 40% say they are in separate groups who coordinate loosely or have very little connection.

Progress has been in setting goals and targets; challenge now is how to deliver, to “operationalize” those goals and targets.

- Setting goals/targets (especially GHG) cited most often as past accomplishments, but getting the resources and support to meet those goals is the biggest challenge going forward (amid rising stakeholder expectations).

Roles have grown, but the challenge is to lead and engage others.

- Over 80% said their own role is enhanced or has grown substantially, but they are challenged to lead, focus and collaborate (especially with the business side) in the face of continuing disruptions and demands.

Survey Responses: Good mix of size and sectors

Company size (employees)	Number
100,000 +	10
50,000 +	7
10,000 +	9
5,000 +	2
< 5,000	4

Sectors	Number
Transportation/Logistics	6
Health Care	5
Automotive	4
Energy	4
Food/Agriculture	4
Other (≤ 2 /sector)	9

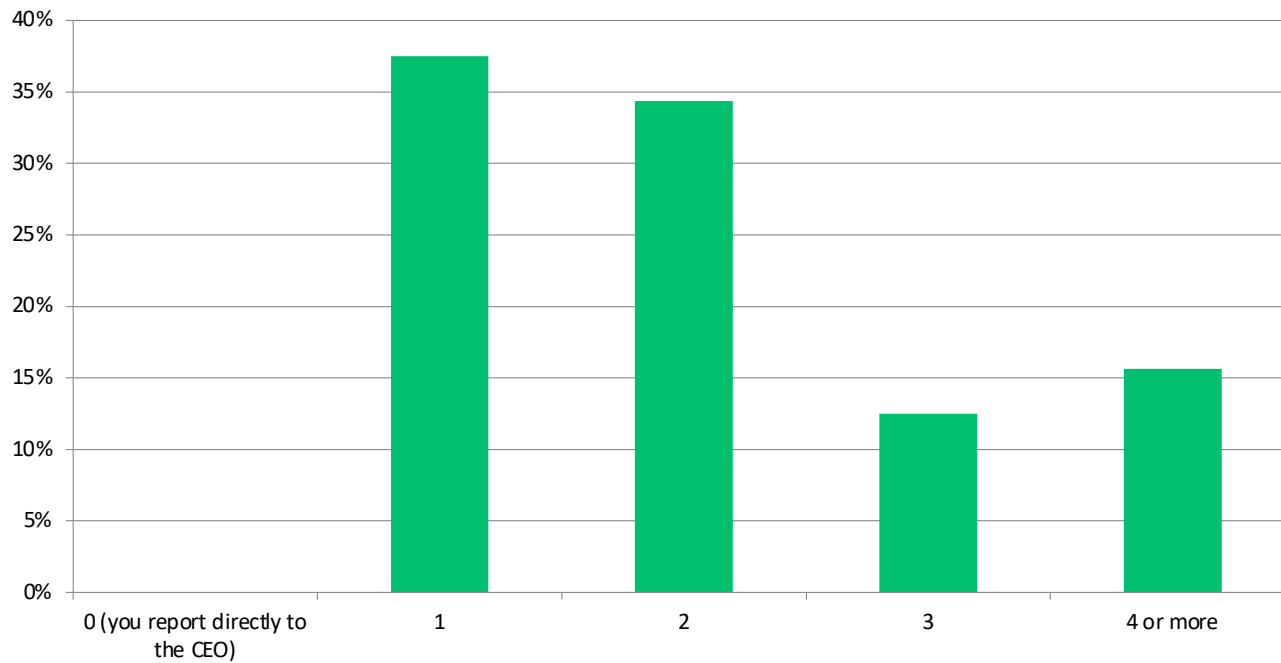
Survey Responses: Cross section of roles and reporting

Respondent's Role	Number
VP/CSO/Head/Officer	12
Director/Sr Dir/Leader	13
Manager/Sr Mgr	3
Other	4

Reports To	Number
Chief Legal/Risk/ Compliance/GA officer	5
COO	3
Other C-Suite	5
Senior Business Leaders	5
Senior EHS/ Sustainability/ESG Leader	8
Other	2

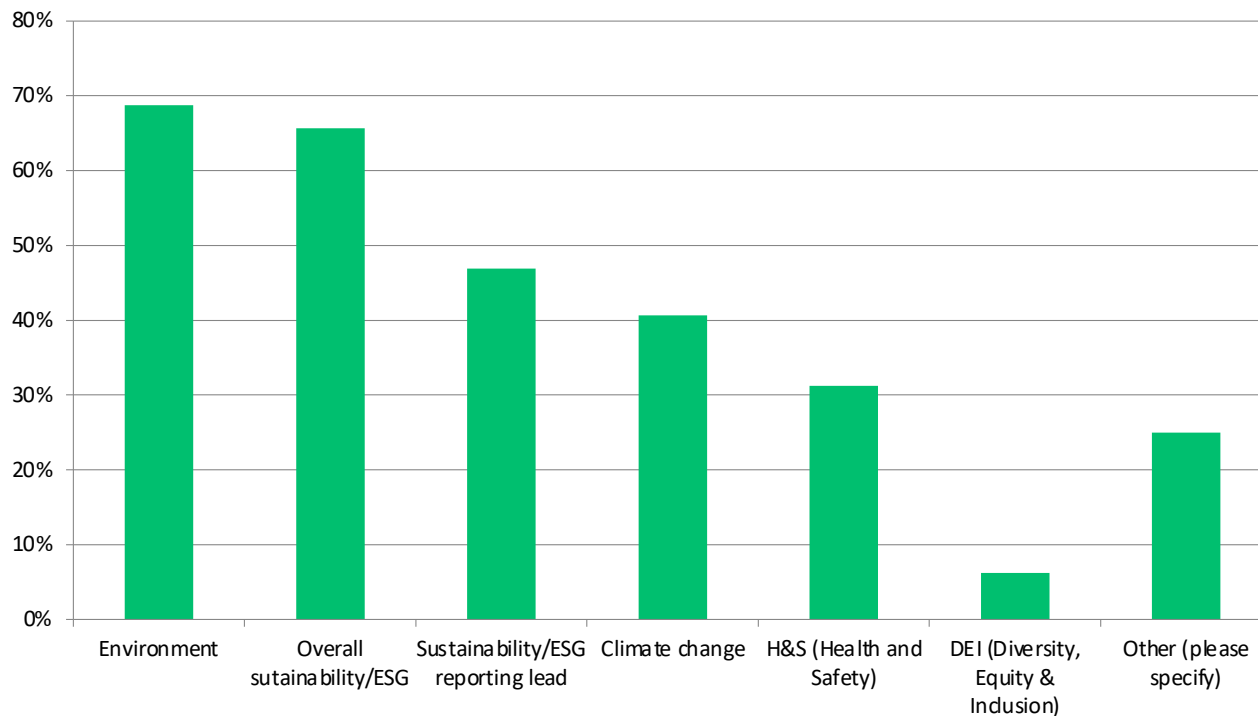
Respondents' hierarchy roles vary widely

Survey Question: How many levels/people are there between you and your CEO?



Respondents' responsibilities vary widely

Survey Question: YOUR Responsibilities: Select all that apply



“Other” includes

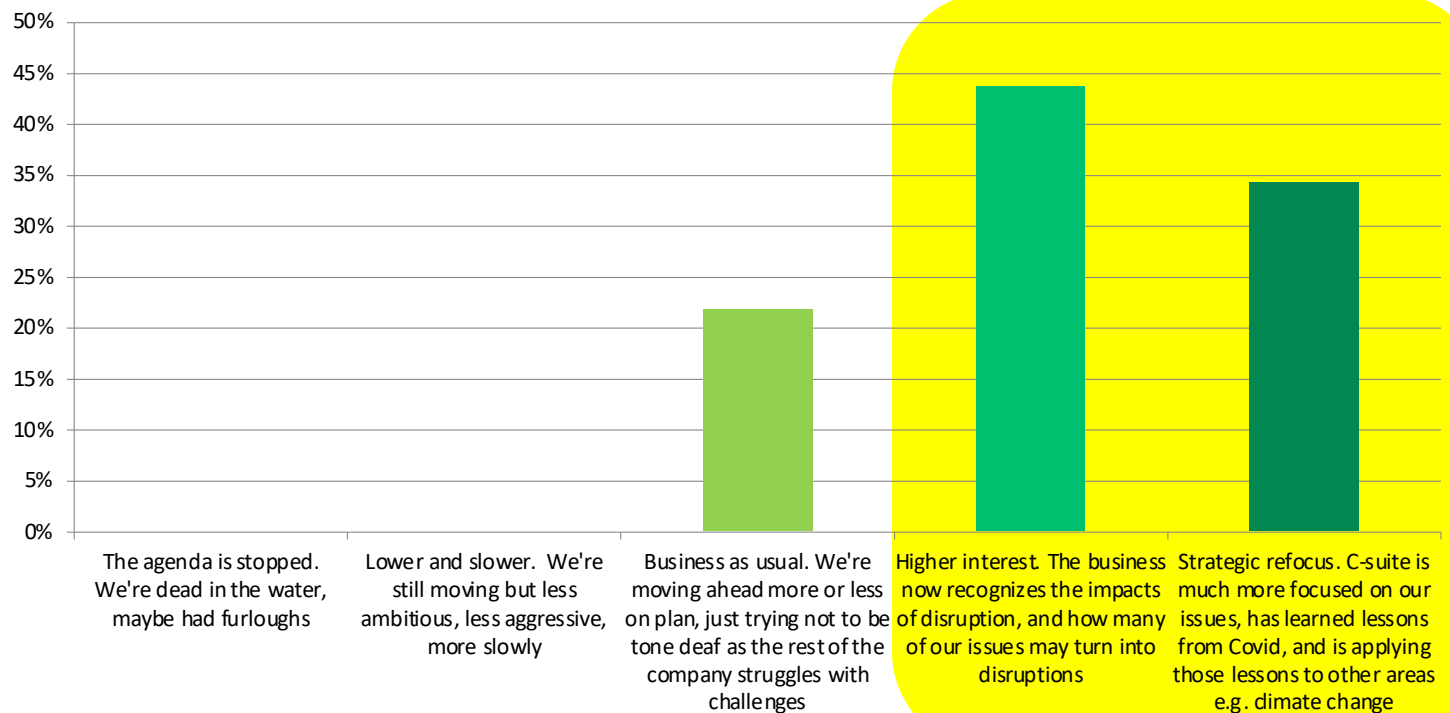
- Business Continuity, Facilities, Office Services
- Global real estate
- Risk
- Strategy
- Supplier side - ESG, supplier diversity
- Supply chain risk management/ sustainability
- Vehicle emissions

EHS/ESG Programs

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Programs getting more attention and focus

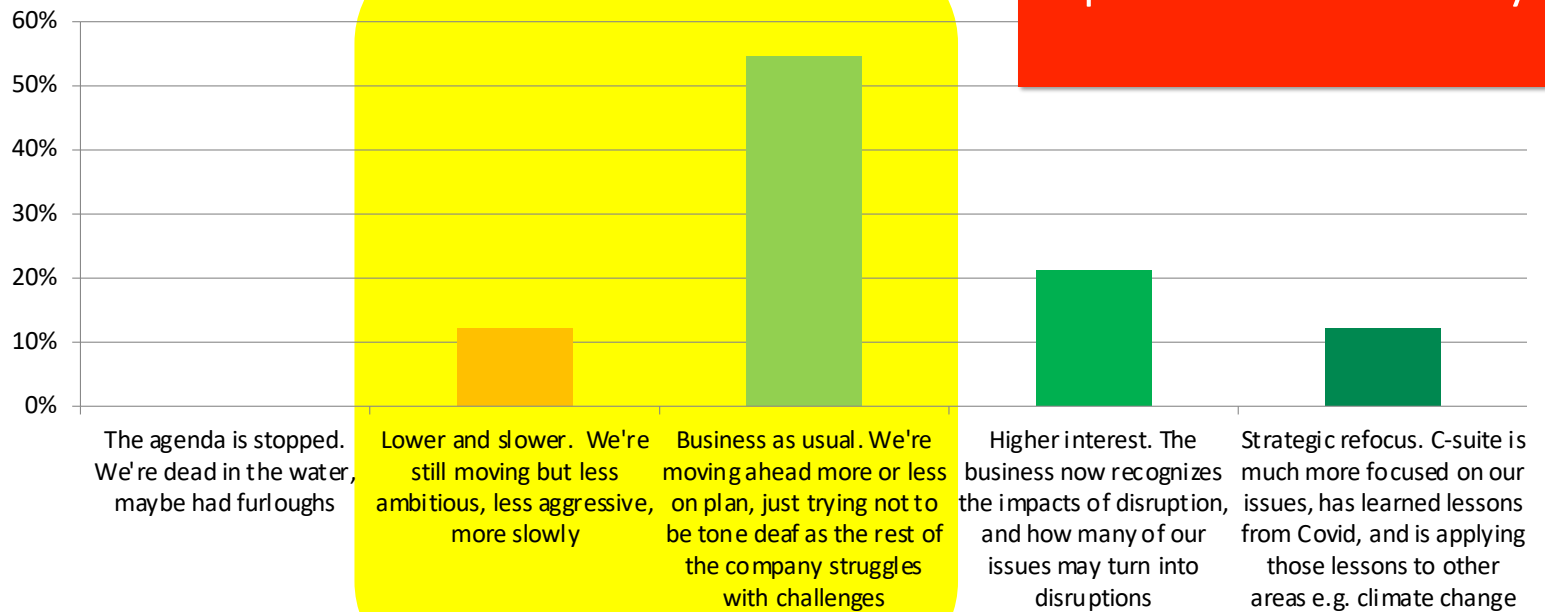
Survey Question: How has your company's EHS/Sustainability agenda proceeded since the pandemic hit?



Programs distracted but roughly on course

Survey Question: How has your company's EHS/Sustainability agenda proceeded since the pandemic hit?

Big difference from September 2020 survey



Programs getting more attention and focus

Survey Question: How has your company's EHS/Sustainability agenda proceeded since the pandemic hit?

“ Much more awareness of Carbon Neutral and other sustainability issues ”

“Higher interest driven primarily by our CEO and institutional investors.”

“ESG developments in EU and with SEC have senior leaders’ attention and is getting resourced ”

“Higher interest on steroids but not necessarily drawing parallels with pandemic (more focus on numerical of risks and opportunities) ”

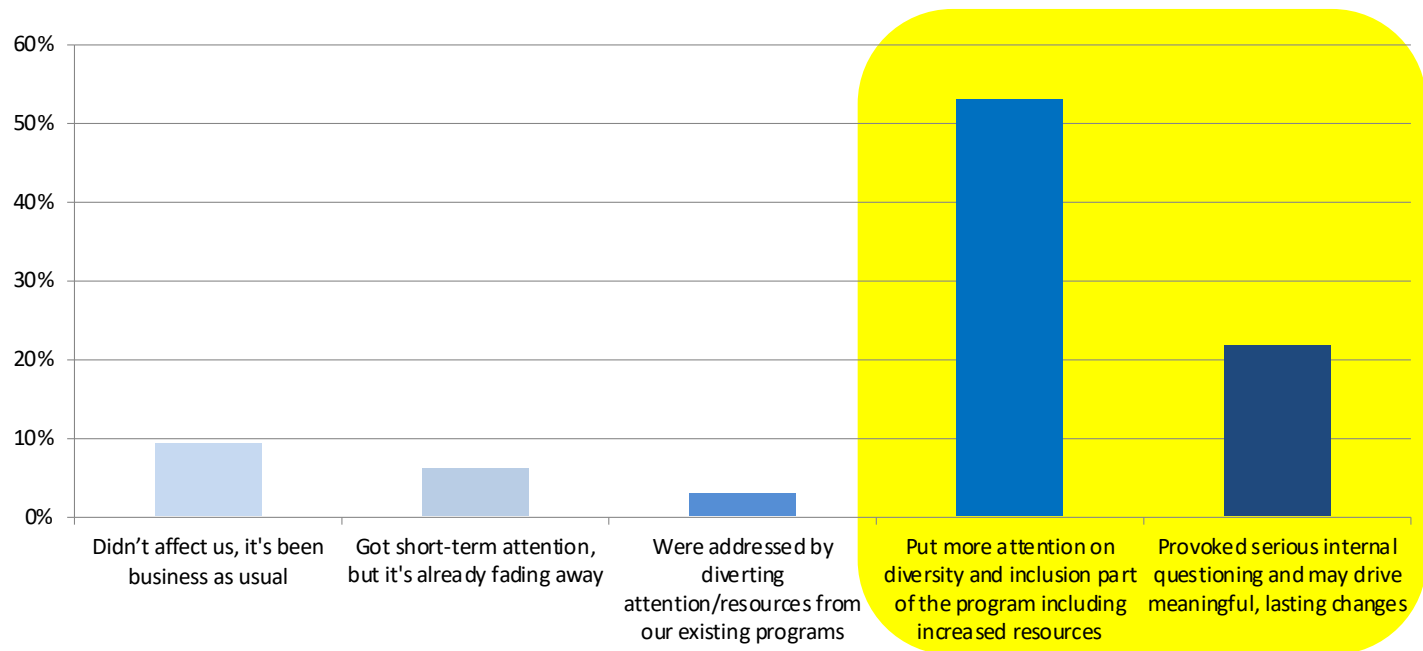
“ In the supplier management side, more focus on climate action (reduction in Scope 3 GHGs), supplier diversity, and ensuring human rights. ”

“ For [us], business as usual means continuing to innovate, continue to set new sustainability targets and exceed the sustainability program of all our peers in [our] industry. ”

Social/diversity & inclusion programs appear to have some substance and traction

Survey Question:

SOCIAL/DIVERSITY & INCLUSION PROGRAMS: How have recent events and intensified focus on racial justice affected your organization's programs?



Social/diversity & inclusion programs appear to have some substance and traction

Survey Question:

SOCIAL/DIVERSITY & INCLUSION PROGRAMS: How have recent events and intensified focus on racial justice affected your organization's programs?

“Our company did not really address the racial justice issues publicly, or even internally beyond one or two emails. We are focusing more on D&I now but only because investors and the Board are asking about it.”

“very applicable to my company, but awareness was already quite high and we have good resources dedicated, though outside the scope of my job ”

“For our U.S. operation, a D&I team was established that reports directly to the CEO ”

“2020 was the year of more is more; 2021 is a little less on cadence of activities and listening sessions, a little more strategy and disciplined execution ”

“Diversity and Inclusion Programs are very robust and high priority.”

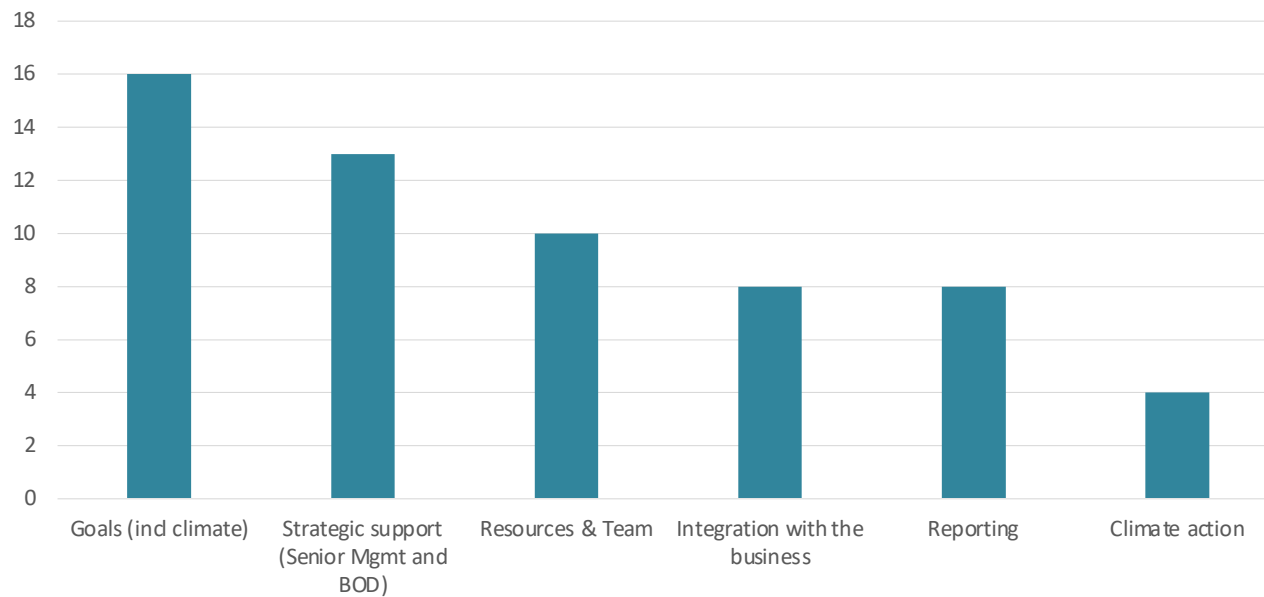
Diversity, equity and inclusion (DE&I) is a real, ongoing priority and challenge.

- “It’s a factor in recruitment and how prospective employees see our company. Potential employees ask about it.”
- It’s also a more personal factor: “What is my company doing to help me bring my best self to the job?”
- There are multiple levels and factors, e.g. “We have a ton of diversity on our Board of Directors in terms of gender, race, ethnicity, Board refreshment, but what about climate expertise on the Board? Experience in other key issues?”



Successes: Setting Goals and Getting Support

Survey Question: What do you see as the biggest successes in your program?



Wide variety of other responses include:

- Safety
- Pandemic
- Employee engagement
- Stakeholder engagement
- Branding
- Focus

Successes: Setting Goals and Getting Support

Survey Question: What do you see as the biggest successes in your program?

“Attaining approval of our public climate goals (2030/2050)”

“Robust 2030 ESG goals ”

“Stronger awareness that sustainability needs more attention on product side.”

“Development of tangible goals for non-GHG areas of sustainability ”

“Setting new goals - SBTi and Net Zero ”

“ Plans for meeting energy and water goals by 2030 ”

“Establishment of an agreed upon direction for strategy (balance of risk mgt and opportunities) ”

“ Keeping pace with peers on ESG scores and recognition with much leaner organization with fewer resources ”

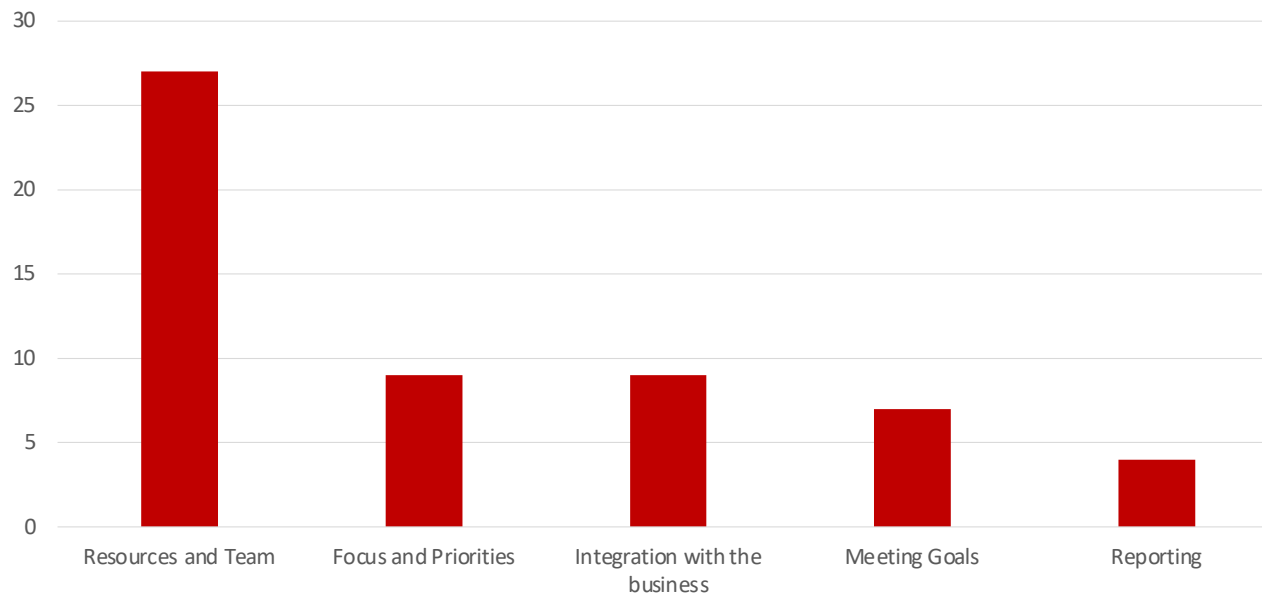
“First sustainability report and resulting conversations on the value of transparency ”

“Decarbonization being driven by leaders of business units ”

“ Integrating ESG into our supplier risk management profiles ”

Challenges: Resources and Focus to Meet Goals

Survey Question: What do you see as the biggest challenges for your program?



Wide variety of other responses include:

- Technology
- Tightening renewables market
- Fragmented stakeholder demands
- Data availability and quality
- “Herding cats”

Challenges: Resources and Focus to Meet Goals

Survey Question: What do you see as the biggest challenges for your program?

“Demands for near-term sustainability action at no cost (or to be 100% offset by other reductions)”

“Ensuring that ambitious goals are backed by the appropriate resources.”

“continuing to help others connect the dots between operations and impact on sustainability”

“Bandwidth at the plants - driving energy reduction work when we are running lean”

“is sustainability compatible with margins our investors have come to expect”

“Need more integration within the entire ORG (down to associates)”

“Lack of focus by external stakeholders. Everything is a crisis and has to be addressed simultaneously”

“Words vs. actions - put our money on it!”

“A just transition that considers the most vulnerable”

“Hard to secure REC's, PPA's with constant market fluctuations”

“People who decided to care now that ESG is cool”

“Breadth of expectations vs. breadth of sustainability team experience”

Going into 2022, expectations range from cautious to incremental to dramatic

Survey Question: In your own words, how would you summarize your expectations for your programs in 2022?

“Significant challenges to engage leadership to provide resources to achieve long term goals. They seem more focused on the current crises than what we have committed to the public.”

“ Keeping our heads above water - incremental improvement in some ESG scores will be a bonus ”

“High expectations for more external commitments around emissions reductions.”

“On track but still getting overall plan in place and organization figured out ”

“ Key is to make sure the fundamentals are solid (e.g. process safety, compliance) and then make incremental progress on the ESG agenda. ”

“ Building out the right infrastructure to make the goals we’ve set doable ”

“Accelerate progress towards public commitments. ”

“ I expect there to be a significant amount of work to keep up with growth, without the addition of required resources. ”

“A dramatic shift into strategic thinking, instead of just increasingly transparent reporting.”

“Improving participation and transparency across the company for ESG accomplishments.”

“We'll close many gaps but there is still a lot of work to be done ”

Tension between “Ambition vs. Achievement”

- Companies face external pressures to set goals and disclose to the point where it feels like setting goals and disclosing “have more value than actually doing something”. Leadership feels that pressure and wants to respond.
- There is a tension between the sustainability “ambition” to make progress and have real impact, and the natural hesitation to write checks you can’t cash, to promise and not deliver.
 - Both the engineering discipline and potential SEC oversight drive toward caution: don’t set goals until and unless you know how you’ll achieve them.
 - Sustainability may be unique: “deemed an emergency, needs a response; like a flood, you need people to commit to show up, you can’t wait for them to plan exactly how many sandbags they can fill before they decide whether to come out.”
 - The risk of **not** doing something may be greater than the risk of doing something. For companies that err toward caution, “I’m not sure how they get through their investor calls” without goals and disclosure.
- Success may require managing both the expectations created by your ambition, and the performance that creates your achievement.

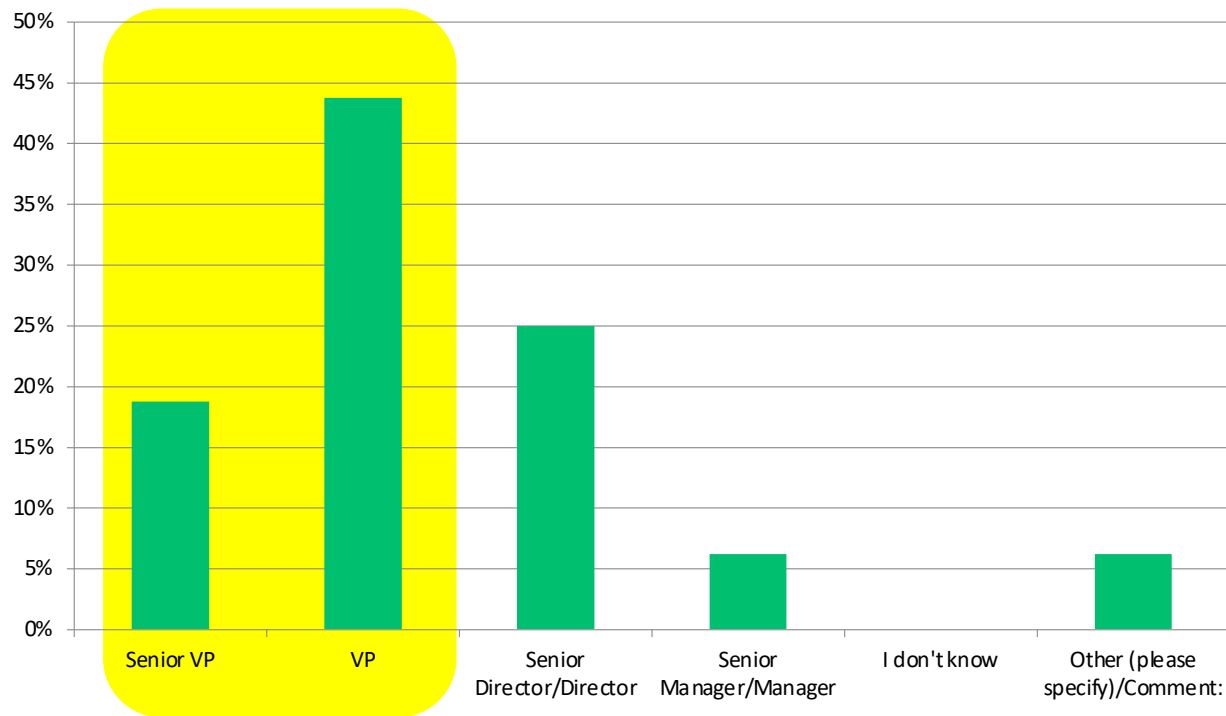


Sustainability Leadership

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More than 2/3 are VP or higher

Survey Question: What level is the senior Sustainability Leadership role in your company?

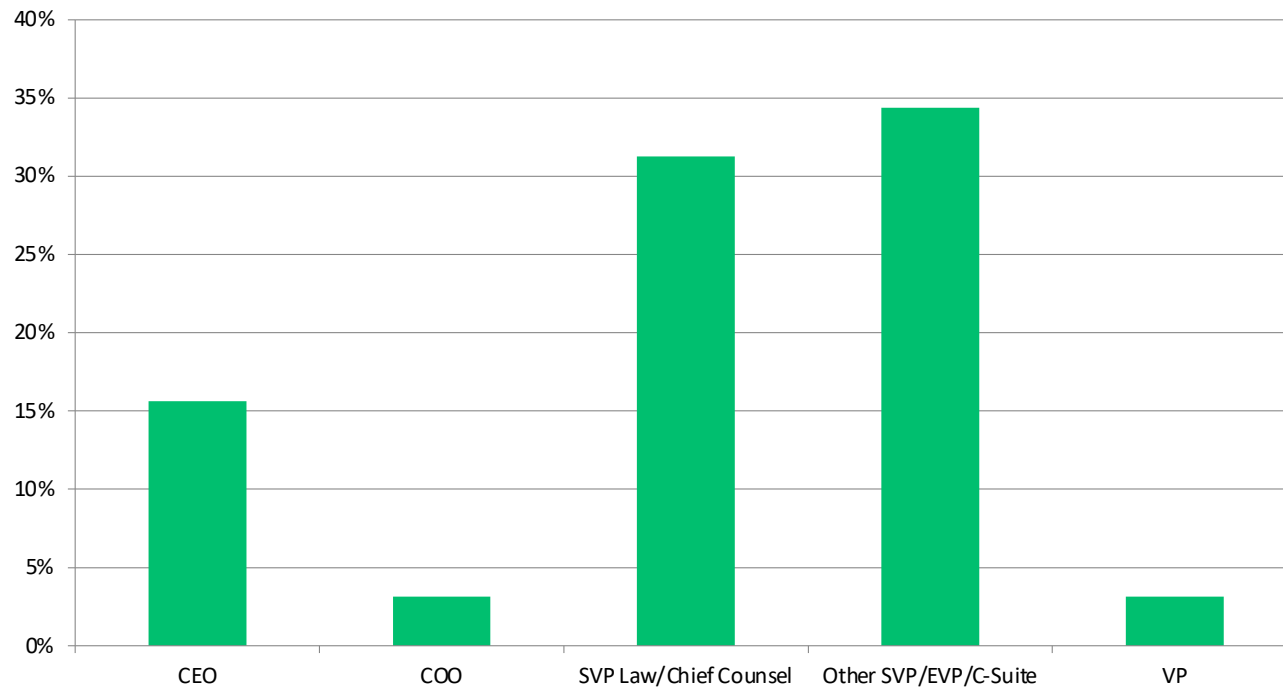


“Other” includes

- Specific title is Chief Sustainability Officer, so higher than VP level
- CEO leads our Sustainability committee and is actively engaged

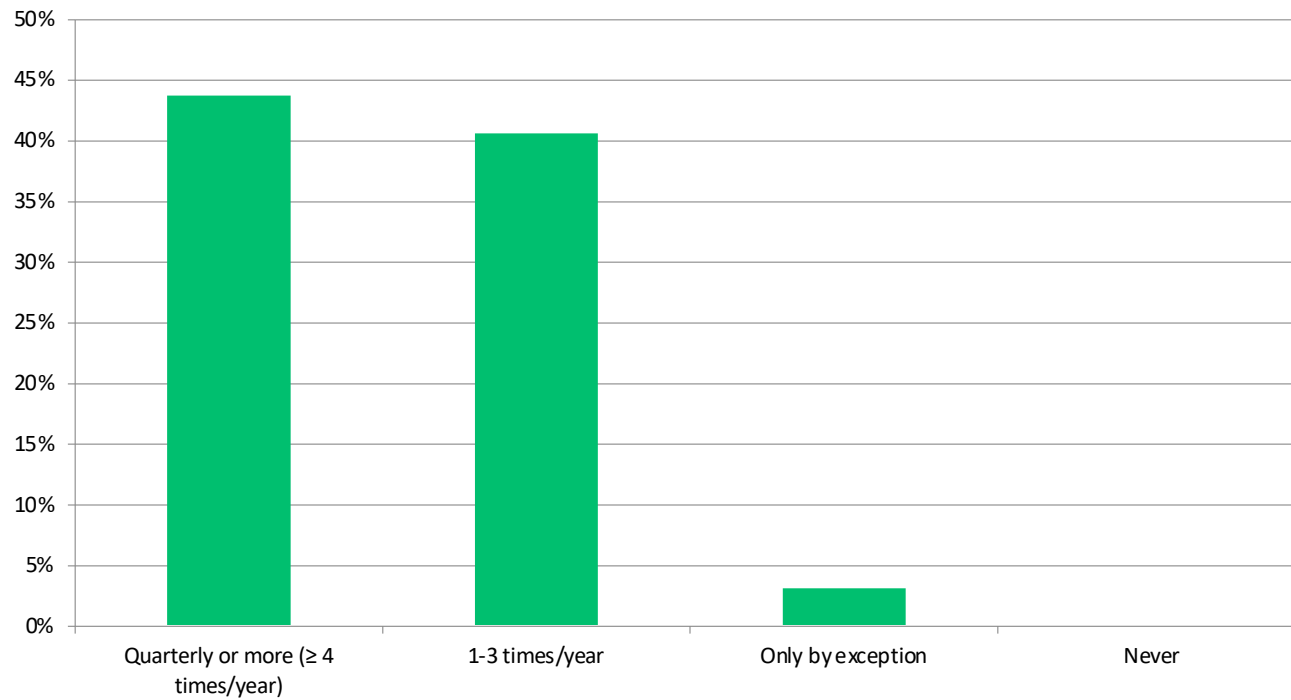
Most report directly to the C-Suite

Survey Question: To whom does that senior Sustainability Leader report?



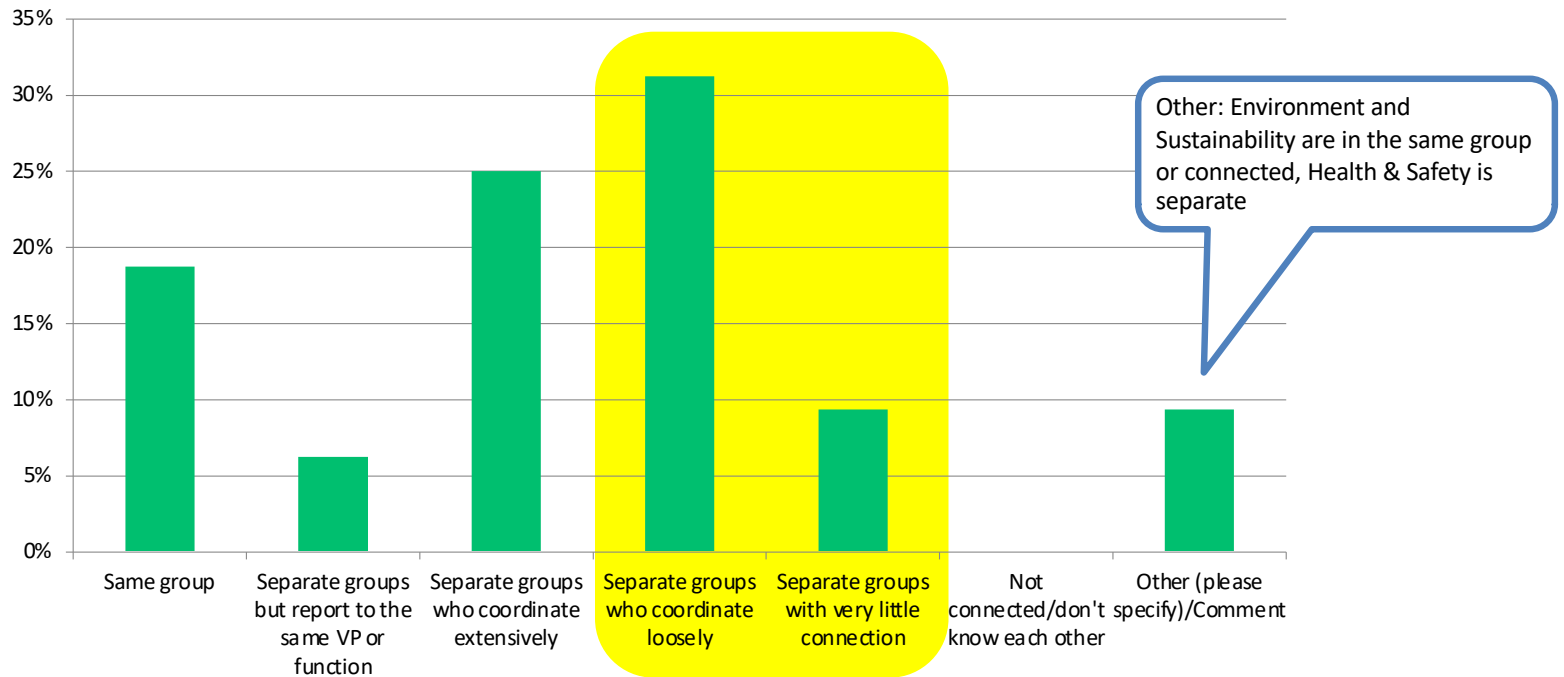
Most report often to Board/Committee

Survey Question: How often does the Senior Sustainability Leader meet personally with the Board or BOD committee?



Sustainability/EHS connections uneven

Survey Question: How are Sustainability and EHS connected in your company?



ESG and EHS need each other to operationalize sustainability.

- ESG often has the context, ambition and greater access to senior management.
- EHS often has the operational knowledge and internal network (e.g. operations, manufacturing, field away from headquarters, etc.) to help evaluate and achieve goals and targets.
- They can see the world very differently and have difficulty collaborating: “ESG is from Venus, EHS is from Mars.” EHS perspective comes from risk and regulation, while much corporate ESG perspective comes from external stakeholders, communications and opportunity.
- They need each other: one is often making promises, the other helps keep promises.

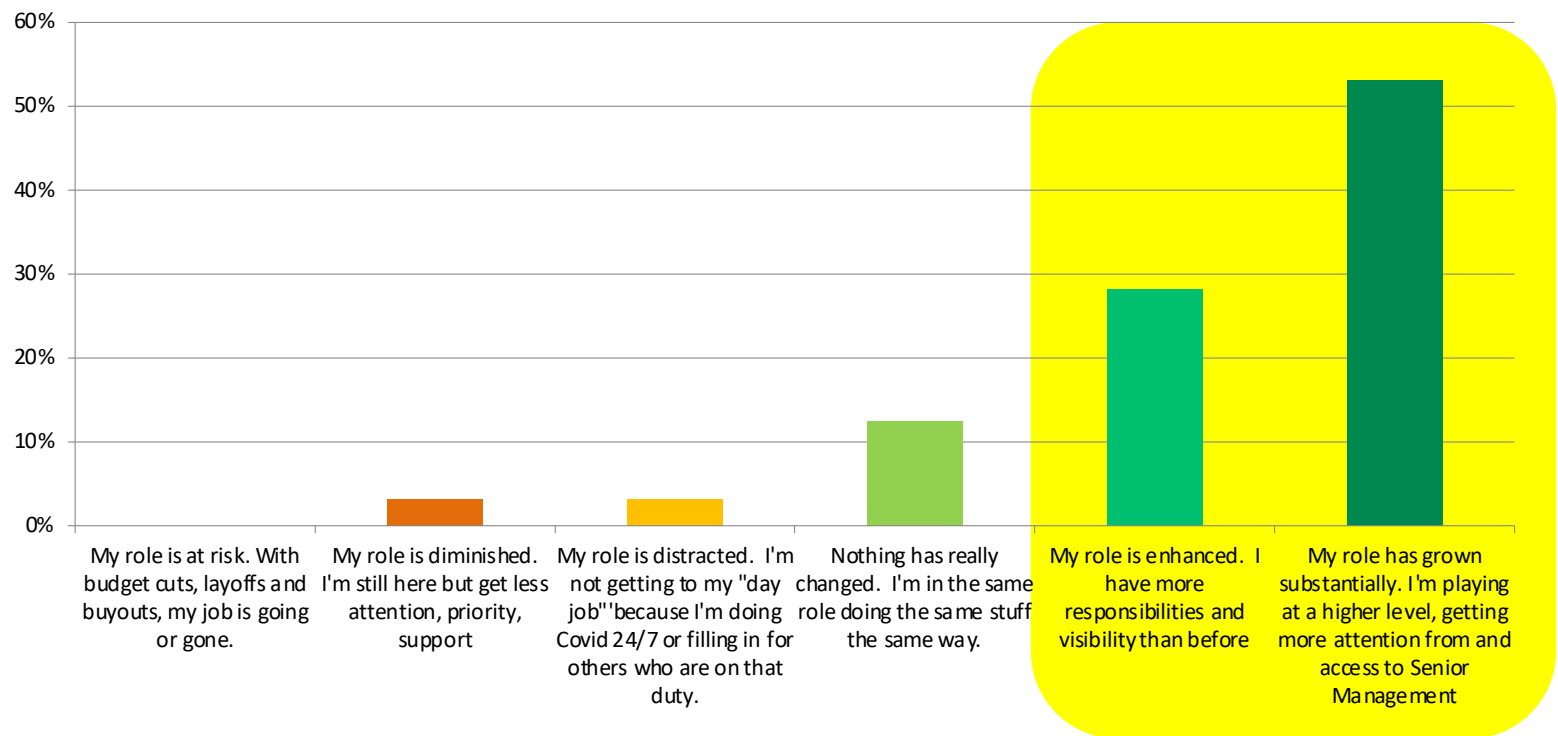


Your Role

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Roles have grown during the pandemic

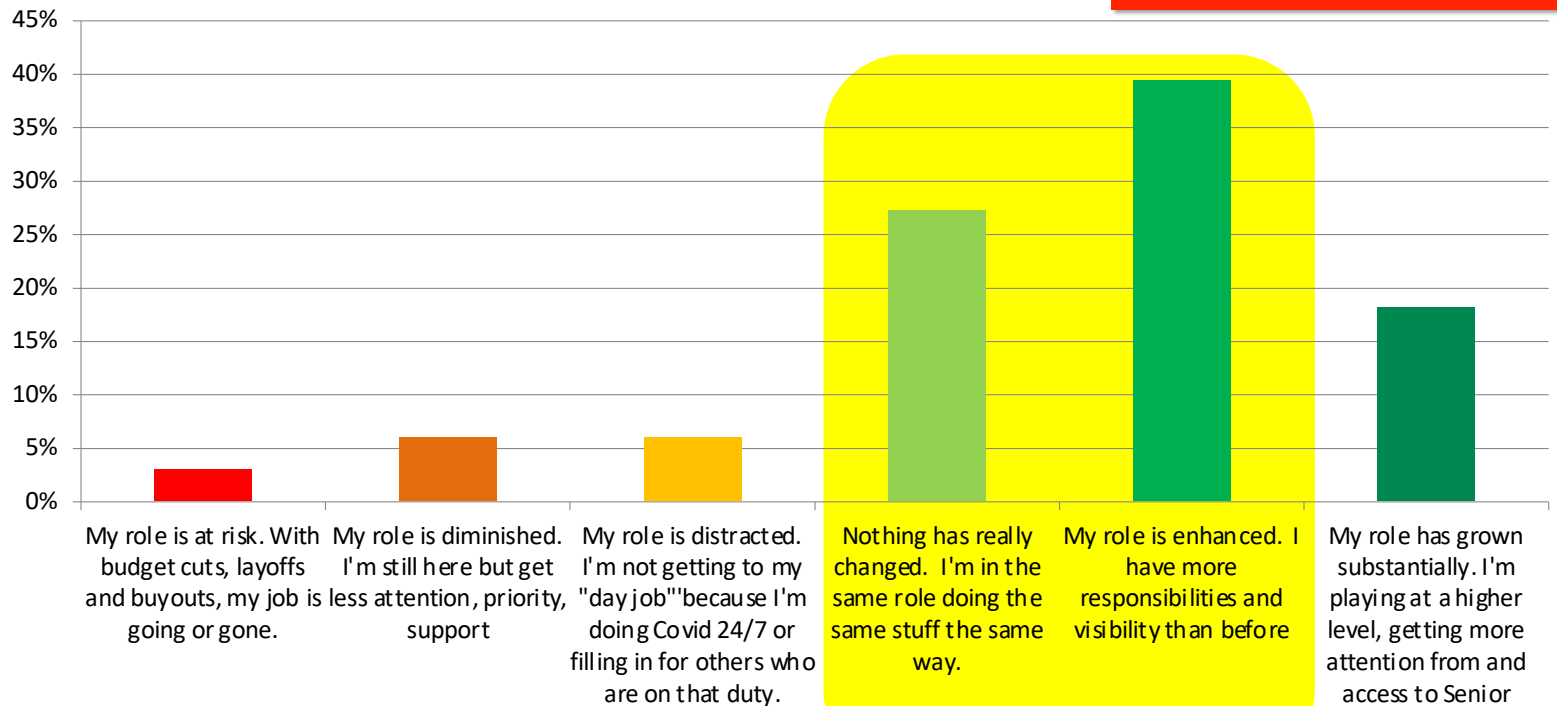
Survey Question: YOUR SUSTAINABILITY/EHS ROLE: How has your own role changed since the pandemic hit?



Roles have grown during the pandemic

Survey Question: YOUR SUSTAINABILITY/EHS ROLE: How has your own role changed since the pandemic hit?

Some shift from September 2020 survey



Roles have grown during the pandemic

Survey Question: YOUR SUSTAINABILITY/EHS ROLE: How has your own role changed since the pandemic hit?

“Absolutely getting more attention from senior leaders ”

“Sustainability/ESG is now a regular ExCom and Board topic. ”

“This isn't due to COVID primarily, but increased customer interest in climate and ESG ”

“our program had matured before the pandemic, and so my responsibility and activity really didn't change ”

“sustainability getting more blended with social issues (like env justice) ”

“My answer is making the next level down talent gap much more apparent ”

“ [W]hen I state that nothing has really changed, this means we constantly strive to improve our environmental compliance and sustainability programs and results. That has not and will never change. ”

“My role has elevated but am still a team of one (until a junior person starts shortly who will report to me) ”

Looking ahead: Aiming for leadership, but anticipating chaotic and exhausting

Survey Question: In your own words, how would you describe your expectations for your job in 2022?

“Growing and chaotic”

“Lead, engage, deliver”

“Crazy busy with a lot of internal and external activity.”

“Keep the teams motivated/valued, focused on the right things and balancing the proactive and reactive issues.”

“More responsibilities, tighter focus on managing change w/in the team, establish more aggressive targets/objectives for performance.”

“Lead, energize, nurture and challenge my ... direct reports so as to achieve the goals set out [above]”

“A recognition of the interconnected aspects of ESG from various departments with a confident ringleader in the center.”

“Provide leadership and direction to the enterprise. Continue to provide resources to achieve the desired results”

“Manage existing crises, but shift efforts to engaging senior leadership to focus on long-term CO2 and renewable electricity goals.”

“1) Exciting.... If I can play the real part 2) exhaustingnot enough hours in the day now that we are popular and in constant demand”

Discussion and Next Steps



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Nadler Strategy LLC

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